



**Mkhambathini Municipality
Annual Financial Statements
for the year ended 30 June 2016**

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Delivering of services to the community
Mayoral committee	
Executive Mayor	Cllr. T. E. Maphumulo
	Cllr.C.T. Mkhize (Deputy Mayor)
Councillors	Cllr. E. Ngcongco (Speaker)
	Cllr T.A. Gwala
	Cllr. K.R Mofokeng
	Cllr. T.Z. Maphumulo
	Cllr. F.P. Msomi (Deceased - 07 August 2015)
	Cllr.M.R. Ntuli
	Cllr.M.M.Lembethe
	Cllr.N.Zondo
	Cllr.R.N. Lembethe
	Cllr.M.A. Ngcongco
	Cllr. M.M.M. Magubane
	Cllr. H.S. Mthethwa
Grading of local authority	Grade 1
Accounting Officer	Mrs.T.C. Ndlela 031 785 9306
Chief Finance Officer (CFO)	Mr. M .Chandulal 031 758 9320
Municipal Website	www.mkhambathini.gov.za
Business address	18 Old Main Road Camperdown 3720
Postal address	Private Bag X04 Camperdown 3720
Contact number	031 785 9300
Auditors	Auditor-General
Name of Account Holder	Mkhambathini Municipality
Bank	Standard Bank 052 1499 78

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The reports and statements set out below comprise the Annual Financial Statements presented to the Provincial Legislature:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, she is satisfied that the municipality has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 44, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 .

Accounting Officer
Mrs. T.C.Ndlela

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Officer' s Report

The Accounting Officer submits her report for the year ended 30 June 2016.

1. Subsequent events

The Accounting Officer is not aware of any matter or circumstance arising since the end of the financial year.

2. Accounting Officer

The Accounting Officer of the Municipality during the year and to the date of this report is as follows:

Name	Nationality	Appointment Date
Mrs. T.C. Ndlela	South African	15 October 2015

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Operating lease asset	6	72,875	61,366
Receivables from exchange transactions	7	180,715	875,764
VAT receivable	8	355,277	2,043,251
Consumer debtors	9	8,951,467	7,345,021
Cash and cash equivalents	10	37,260,379	14,613,590
		46,820,713	24,938,992
Non-Current Assets			
Investment property	3	5,251,600	5,251,600
Property, plant and equipment	4	106,313,919	94,475,041
Intangible assets	5	698,252	48,088
		112,263,771	99,774,729
Total Assets		159,084,484	124,713,721
Liabilities			
Current Liabilities			
Operating lease liability	6	4,153	13,671
Payables from exchange transactions	13	6,736,277	6,997,633
Unspent conditional grants	11	3,170,598	4,055,246
Provisions	12	1,928,331	1,682,566
		11,839,359	12,749,116
Non-Current Liabilities			
Provisions	12	2,816,008	2,200,000
Total Liabilities		14,655,367	14,949,116
Net Assets		144,429,117	109,764,605
Accumulated surplus		144,429,117	109,764,605

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Commissions received - Insurance Premiums		12,714	12,173
Other income	15	591,207	397,478
Interest received	16	4,117,139	2,029,073
Property rates	17	11,826,508	11,603,328
Government grants & subsidies	18	74,971,569	65,339,740
Fines, Penalties and Forfeits		92,650	31,550
Licenses and permits		3,860,691	3,946,205
Total revenue		95,472,478	83,359,547
Expenditure			
Employee Related Cost	19	(21,594,770)	(21,411,323)
Remuneration of councillors	20	(4,619,711)	(4,492,358)
Contributions to Medical Aid and Long Service Awards	21	(621,493)	(377,493)
Depreciation and amortisation		(5,587,825)	(4,626,666)
Impairment loss/ Reversal of impairments		(719,376)	(2,145,300)
Debt Impairment	22	(1,726,574)	(2,258,175)
Collection costs		-	(15,886)
Repairs and maintenance		(860,218)	(976,466)
Grants and subsidies Expenditure		(5,458,838)	(7,734,332)
General Expenses	23	(19,619,161)	(14,018,294)
Total expenditure		(60,807,966)	(58,056,293)
Surplus for the year		34,664,512	25,303,254

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2014	71,648,322	71,648,322
Surplus for the year	25,303,254	25,303,254
Opening balance as previously reported	96,951,576	96,951,576
Prior year adjustments (Note 32)	12,813,029	12,813,029
Restated* Balance at 01 July 2015 as restated*	109,764,605	109,764,605
Surplus for the year	34,664,512	34,664,512
Balance at 30 June 2016	144,429,117	144,429,117

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Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Taxation		1,687,974	(1,111,866)
Sale of goods and services		16,986,023	13,224,644
Grants		74,086,922	65,775,151
Interest Received		1,875,411	1,972,415
		<u>94,636,330</u>	<u>79,860,344</u>
Payments			
Employee costs		(21,594,770)	(21,411,323)
Remuneration of Councillors		(4,619,711)	(4,492,358)
Cash Paid to Suppliers		(26,863,202)	(23,921,913)
		<u>(53,077,683)</u>	<u>(49,825,594)</u>
Net cash flows from operating activities	27	<u>41,558,647</u>	<u>30,034,750</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(18,260,917)	(20,996,851)
Proceeds from sale of property, plant and equipment	4	36,991	4,500
Purchase of other intangible assets	5	(687,932)	-
Net cash flows from investing activities		<u>(18,911,858)</u>	<u>(20,992,351)</u>
Net increase/(decrease) in cash and cash equivalents		22,646,789	9,042,399
Cash and cash equivalents at the beginning of the year		14,613,590	5,571,191
Cash and cash equivalents at the end of the year	10	<u>37,260,379</u>	<u>14,613,590</u>

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Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Commissions received	6,198	(2,198)	4,000	12,714	8,714	(b)
Other income	377,715	2,198	379,913	591,207	211,294	(c)
Interest Received - Investment	800,000	726,000	1,526,000	1,875,411	349,411	(d)
Interest received - Debtors	1,272,000	-	1,272,000	2,241,728	969,728	(d)
Total revenue from exchange transactions	2,455,913	726,000	3,181,913	4,721,060	1,539,147	

Revenue from non-exchange transactions

Taxation revenue

Property rates	11,454,188	-	11,454,188	11,826,508	372,320	(e)
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Transfer revenue

Government grants & subsidies	65,873,000	(5,767,000)	60,106,000	74,971,569	14,865,569	(f)
Fines, Penalties and Forfeits	41,128	-	41,128	92,650	51,522	
Licenses and permits	4,873,198	(1,298,000)	3,575,198	3,860,691	285,493	(a)

Total revenue from non-exchange transactions	82,241,514	(7,065,000)	75,176,514	90,751,418	15,574,904	
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Total revenue	84,697,427	(6,339,000)	78,358,427	95,472,478	17,114,051	
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Expenditure

Employee related cost	(25,751,892)	-	(25,751,892)	(21,594,770)	4,157,122	(g)
Remuneration of councillors	(4,800,000)	-	(4,800,000)	(4,619,711)	180,289	(h)
Contribution to Medical Aid and Long Service Awards	(300,000)	-	(300,000)	(621,493)	(321,493)	(i)
Depreciation and amortisation	(4,700,000)	-	(4,700,000)	(5,587,825)	(887,825)	(j)
Impairment loss/ Reversal of impairments	-	-	-	(719,376)	(719,376)	(j)
Debt Impairment	(800,000)	-	(800,000)	(1,726,574)	(926,574)	(k)
Repairs and Maintenance	(7,750,000)	2,000,000	(5,750,000)	-	5,750,000	(l)
Finance charges	(140,000)	140,000	-	-	-	
Transfers recognised operational	(14,532,000)	7,257,000	(7,275,000)	(5,458,838)	1,816,162	(m)
General Expenses	(24,854,155)	-	(24,854,155)	(20,479,379)	4,374,776	(n)

Total expenditure	(83,628,047)	9,397,000	(74,231,047)	(60,807,966)	13,423,081	
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Surplus or (Deficit) for the year after capital expenditure	20,370,380	-	20,370,380	17,794,765	(2,575,615)	
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Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Explanations

- (a) License and permits – Variable depending on the number of license applications
- (b) Commissions received – Variable depending on the number of staff whose payment are made across to third parties
- (c) Other income – Mainly due leases and building plan fees
- (d) Interest received – Interest received on investments increased due to funds being invested for longer period due to more cash on hand. Interest on debtors is variable
- (e) Property rates – The amounts actually billed were greater and budgeted. This was due to the implementation of the supplementary roll.
- (f) Government grants and subsidies – includes rollover and re- gazette of electrification and addition of library grant.
- (g) Employee related costs – Vacancies exists with the staff complement which includes section 57 employees
- (h) Remuneration of Councillors – This was slightly over budgeted for.
- (i) Contribution to medical aid and long service awards – This was under budgeted for as this is variable depending on the valuation done by the Actuary.
- (j) Depreciation - Increase due additions to property plant and equipment and impairment of assets during this period
- (k) impairment – Increase is due to the arrears in older debt and non - payment
- (l) Repairs and maintenance – Only crucial repairs and maintenance was carried out. The appointment of Technical Services Manager with prioritize repairs and maintenance
- (m) Grant and subsidy expenditure – Electrification was not fully spent, small amounts were unspent on FMG, EPWP and the library grant.
- (n) General expenditure – Underspending is due to implementation of National Treasury's circular on cost containment .

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. The Subsequent measurement of investment properties is carried at cost (Cost Model) .

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Item	Useful life
Property - land	indefinite
Property - buildings	20 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.2 Investment property (continued)

The net proceeds received or receivable on disposal is initially recognised at fair value.

Transfer

Where the municipality over time changes its use of property, the classification of the property may need to change. This means that the property may need to be transferred to or from investment property depending on the nature of the change.

Transfers to or from investment property should only be made when there is a change in use.

A transfer between investment property, plant and equipment and inventory does not change the carrying amount of the property transferred and it does not change the cost of that property for measurement or disclosure purposes.

Impairment

The municipality assess at each reporting date whether or not there is an indication that the investment property carried under the cost model might be impaired. If there is an indication of impairment, then the recoverable amount or recoverable service amount should be determined respectively.

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.3 Property, plant and equipment

Property, plant and equipment is initially measured at cost. Property, Plant and Equipment is carried at cost less accumulated depreciation and impairment losses (Cost Model)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Property, plant and equipment are depreciated on the straight line basis over their useful lives to their estimates.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings		
Animal pound and Parkhomes	Straight line	30
Plant and machinery		
Brush cutters and Lawn Mowers	Straight line	3 - 15
Tractors	Straight line	10 - 25
Guardrails and Boreholes	Straight line	15
Furniture and fixtures		
Chairs and Sofas	Straight line	5 - 20
Bookshelves and Cabinet	Straight line	7 - 20
Desks and Tables	Straight line	7 - 20
Motor vehicles		
Motor Vehicles	Straight line	7 - 20
Office equipment		
Printers	Straight line	3-9
Cameras	Straight line	3-9
Video Cameras	Straight line	3-9
IT equipment		
Laptop	Straight line	3-8
Desktop	Straight line	3-8
Central Processing unit	Straight line	3-8
Infrastructure		
Roads and Paving	Straight line	10-30
Stormwater	Straight line	20-25
Community		
Building (Halls, change rooms, Taxi rank building and toilets)	Straight line	30
Grand stand and Paved Area	Straight line	20-30
Sportfield, combination court, fences, Water tanks	Straight line	10-18
Other		
Tools and equipment	Straight line	3-9
Plant and Equipment	Straight line	2-25
Office Equipment	Straight line	3-9
Security Measures		
Walls	Straight line	30
Gates and Fencing	Straight line	10

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.3 Property, plant and equipment (continued)

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The disposal of an item of property, plant and equipment may occur in a variety of ways (e.g. by sale, by entering into a finance lease or through a non-exchange transaction).

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Transfer of Property, Plant and equipment

Upon the completion a transfer is made from work in progress to asset.

Capital Work in Progress

Capital work in progress (WIP) represents the cost of construction work on assets which are not yet completed as at the end of the financial year.

WIP costs are accounted for on an accrual basis at cost or fair value given in acquiring or constructing the assets. Under the accrual basis of accounting, costs are recognised when incurred, usually when goods or services are consumed and not necessarily when such goods or services are actually paid for.

Cost is the amount of cash or cash equivalent paid, including imports duties and non-refundable purchases taxes, after deducting trade discounts and rebates.

Fair Value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arms length transaction.

The Cost or Fair value of an item of WIP is recognised as an asset if and only if:

- (a) It is probable that the future economic benefits associated with the item will flow to the entity; and
- (b) The cost of the item can be measured reliably.

WIP assets are not depreciated until they are ready for their intended use.

Upon completion, WIP assets are reclassified to the appropriate asset class and at this stage depreciation commences.

The following is disclosed in the financial statements in respect of WIP:

- (a) The amount of expenditure recognised in the carrying amount in the course of construction; and
- (b) The amount of contractual commitment.

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.4 Intangible assets (continued)

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 - 5 years

1.5 Financial instruments

Initial recognition and measurements

Financial instruments are recognised initially when the Municipality becomes a party to the contractual provisions of the instrument

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Receivables from exchange transaction.

Trade receivables are measured at initial recognition at fair value.

Trade and other receivables are classified as receivables.

An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Bad Debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Liabilities are generally settled within the period of 30 days, accordingly, any impairment, if any, are considered to be immaterial.

Cash and cash equivalent

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

1.6 Tax

Income tax expense

No provision has been made for Income tax as the municipality is exempt from taxation in terms of section 10 (1) (A) of the Income Tax Act.

VALUE ADDED TAX (VAT) :

The municipality accounts for VAT on the cash / payments basis. VAT output is paid over to SARS once the cash is received from the customer and VAT input is claimed when suppliers are paid.

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases are those leases that are not finance leases. Operating lease rentals are expensed on the straight line basis.

1.8 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;

- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and

- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Mkhambathini Municipality

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Accounting Policies

1.9 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.9 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Mkhambathini Municipality

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Accounting Policies

1.10 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Contributions to Natal joint Fund (NJF) and are made as follows :

- Provident 1 - 21 Members - 5 % council 9 %
- Provident 2 - 7 Members - 7 % council 18.04 %
- Provident 3 - 4 Members - 9.25 % Council 13.65%
- Retirement 2 Members - 7 % Council - 13.65 %
- Superannuation 45 Members - 9.25 % Council - 25 %

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.12 Revenue Recognition

Revenue is recognised at cost and no interest is recognised as a result of any time value of money adjustments.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.13 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Mkhambathini Municipality

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Accounting Policies

1.14 Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification prior period comparative amounts are reclassified. The nature and the reason for the reclassification is disclosed.

1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.19 Conditional Grants and Receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

1.20 Presentation of budget information

Municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015-07-01 to 2016-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.20 Presentation of budget information (continued)

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.21 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective current year

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 20: Related parties	01 July 2016	Immediate
GRAP 32: Service Concession Arrangements: Grantor	01 July 2016	Immediate
GRAP 108: Statutory Receivables	01 July 2016	Immediate
IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 July 2016	Immediate
GRAP 109: Accounting by Principals and Agents	01 July 2016	Immediate

2.2 Standards and interpretations issued and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
Grap 105 : Transfers of Function between entities under common control	01 July 2015	Immediate
GRAP 1 : Presentation of Financial Assets	01 July 2015	Immediate
GRAP 106 : Transfers of Function between entities not under common control	01 July 2015	Immediate
GRAP 107 : Mergers	01 July 2015	Immediate
GRAP 2 : Cash flow Statement	01 July 2015	Immediate
GRAP 3 : Accounting Policies ,Change in accounting Estimates and Errors	01 July 2015	Immediate
GRAP 9 : Revenue from Exchange Transactions	01 July 2015	Immediate
GRAP 13 : Leases	01 July 2015	Immediate
GRAP 23 : Revenue from non - exchange Transaction	01 July 2015	Immediate
GRAP 31: Intangible Assets	01 July 2015	Immediate
GRAP 25 : Employee Benefits	01 July 2015	Immediate
GRAP 18: Segment Reporting	01 July 2015	Immediate
GRAP 16 (as amended 2015): Investment Property	01 July 2015	Immediate
GRAP 17 (as amended 2015): Property, Plant and Equipment	01 July 2015	Immediate
GRAP 21 (as amended 2015): Impairment of non-cash-generating assets	01 July 2015	Immediate
GRAP 26 (as amended 2015): Impairment of cash-generating assets	01 July 2015	Immediate

3. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	5,251,600	-	5,251,600	5,251,600	-	5,251,600

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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3. Investment property (continued)

Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	5,251,600	5,251,600

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	5,251,600	5,251,600

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. Investment properties (Land) are held for capital appreciation.

Restriction on the ability to realise investment property or the remittance of revenue and proceeds of disposal. The correction of error for investment properties was due to the duplication of an asset reflecting in the asset register.

4. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	12,228,780	(2,657,560)	9,571,220	12,228,780	(2,290,165)	9,938,615
Plant and machinery	16,661,740	-	16,661,740	22,189,875	-	22,189,875
Furniture and fixtures	7,111,424	(3,313,076)	3,798,348	6,490,443	(3,248,548)	3,241,895
Roads and Pavings	42,735,836	(9,399,516)	33,336,320	35,555,239	(7,184,791)	28,370,448
Community Assets	54,914,076	(11,967,785)	42,946,291	39,916,408	(9,182,200)	30,734,208
Total	133,651,856	(27,337,937)	106,313,919	116,380,745	(21,905,704)	94,475,041

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Impairment loss	Total
Buildings	9,938,615	-	-	-	(367,395)	-	9,571,220
Capital Work in Progress	22,189,875	16,880,611	-	(22,178,265)	-	(230,481)	16,661,740
Furniture and fixtures	3,241,895	1,380,306	(152,606)	-	(671,247)	-	3,798,348
Infrastructure	28,370,448	-	-	7,180,596	(2,214,724)	-	33,336,320
Community Assets	30,734,208	-	-	14,997,668	(2,296,690)	(488,895)	42,946,291
	94,475,041	18,260,917	(152,606)	-	(5,550,056)	(719,376)	106,313,919

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Buildings	7,489,378	201,049	-	(247,000)	2,859,363	(364,175)	-	9,938,615
Capital Work in Progress	12,976,188	17,109,112	-	-	(7,895,425)	-	-	22,189,875
Furniture and fixtures	3,208,874	823,072	(8,059)	-	-	(590,146)	(191,846)	3,241,895
Infrastructure	29,404,396	712,249	-	-	-	(1,746,197)	-	28,370,448
Community Assets	26,525,219	3,020,560	-	-	5,036,062	(1,894,178)	(1,953,455)	30,734,208
	79,604,055	21,866,042	(8,059)	(247,000)	-	(4,594,696)	(2,145,301)	94,475,041

5. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	808,151	(109,899)	698,252	120,219	(72,131)	48,088

Mkhambathini Municipality

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Figures in Rand	2016	2015		
5. Intangible assets (continued)				
Reconciliation of intangible assets - 2016				
	Opening balance	Additions	Amortisation	Total
Computer software	48,088	687,932	(37,768)	698,252
Reconciliation of intangible assets - 2015				
	Opening balance	Amortisation	Total	
Computer software, other	72,132	(24,044)	48,088	
6. Operating lease asset and liabilities				
Current assets		72,875	61,366	
Current liabilities		(4,153)	(13,671)	
		68,722	47,695	
7. Receivables from exchange transactions				
Other debtors		180,715	875,764	
8. VAT receivable				
VAT		355,277	2,043,251	
9. Consumer debtors				
Gross balances				
Rates		15,568,296	12,235,276	
Less: Allowance for impairment				
Rates		(6,616,829)	(4,890,255)	
Net balance				
Rates		8,951,467	7,345,021	
Rates				
Current (0 -30 days)		2,182,797	1,808,369	
30 days		946,206	675,674	
60 days		518,933	711,906	
90 days		516,419	587,341	
120 days		507,697	649,506	
150 days		465,241	438,338	
180 Days		10,431,003	7,364,221	
Debtors Discounting		(3,281,274)	(2,315,238)	
Provision for Bad Debt		(3,335,555)	(2,575,096)	
		8,951,467	7,345,021	
Reconciliation of allowance for impairment				
Balance at beginning of the year		(4,890,255)	(2,632,080)	
Contributions to allowance		(1,726,574)	(2,258,175)	
		(6,616,829)	(4,890,255)	

Mkhambathini Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
9. Consumer debtors (continued)		
Councillors in Arrears		
No councillors were in arrears with the municipality in 2015/2016	Nil	Nil
10. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand /Float	521	371
Petty Cash	-	31
Standard Bank -Account number - 052149978 - Current account	1,042,318	532,689
Standard Bank -Account number - 354264338 - Market Link	36,217,540	14,080,499
	37,260,379	14,613,590
Bank Statements balances	-	-
Standard Bank - Account number 052 1499 78 - Current Account	1,042,318	532,689
Standard Bank - Account number 354 264 338 - Market Link	36,217,540	14,080,499
11. Unspent conditional grants		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants		
Municipal assistance programme	47,028	47,028
Community development workers grant	11,225	11,225
Financial management grant	1,051	271,157
Housing grant	1,037,274	444,068
Lums grant	46,537	46,537
Soul buddies grant	-	2,375
Electrification Grant	1,538,667	3,232,856
EPWP grant	45,961	-
Library grant	442,855	-
	3,170,598	4,055,246

Mkhambathini Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
11. Unspent conditional grants (continued)		
Movement during the year		
Municipal systems improvement grant		
Opening balance	-	9,520
Current year receipts	930,000	934,000
Conditions met - transfer to revenue	(930,000)	(943,520)
Conditions still to be met - transfer to liabilities	-	-
MAP grant		
Opening balance	47,028	47,028
Current year receipts	-	-
Conditions still to be met - transfer to liabilities	47,028	47,028
Community development workers		
Opening balance	11,225	11,225
Current year receipts	-	-
Conditions still to be met - transfer to liabilities	11,225	11,225
Corridor development		
Opening balance	-	205,999
Conditions met - transferred to COGTA	-	(205,999)
Conditions still to be met - transfer to liabilities	-	-
Financial management grant		
Opening balance	271,157	15,827
Current year receipts	1,800,000	1,800,000
Conditions met - transfer to revenue	(2,070,106)	(1,544,670)
Conditions still to be met - transfer to liabilities	1,051	271,157
Housing grant		
Opening balance	444,068	444,068
Current year receipts	593,206	-
Conditions still to be met - transfer to liabilities	1,037,274	444,068
Lums grant		
Opening balance	46,537	46,537
Current year receipts	-	-
Conditions met - transfer to revenue	-	-
Conditions still to be met - transfer to liabilities	46,537	46,537
Municipal infrastructure grant		
Opening balance	-	1,090,112
Current year receipts	16,851,000	16,251,000
Conditions met - transfer to revenue	(16,851,000)	(17,341,112)
Conditions still to be met - transfer to liabilities	-	-
Soul buddies		
Opening balance	2,375	2,375
Current year receipts	-	-
Conditions met - transfer to revenue	(2,375)	-
Conditions still to be met - transfer to liabilities	-	2,375

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
11. Unspent conditional grants (continued)		
Electrification		
Opening balance	3,232,856	1,746,008
Current year receipts	2,000,000	5,000,000
Conditions met - transfer to revenue	(3,694,189)	(3,513,152)
Conditions still to be met - transfer to liabilities	1,538,667	3,232,856
Expanded Public Works Programme Grant		
Opening balance	-	-
Current year receipts	1,058,000	1,132,000
Conditions met - transfer to revenue	(1,012,039)	(1,132,000)
Conditions still to be met - transfer to liabilities	45,961	-
Library Grant		
Opening Balance	-	901
Current Year receipt	1,244,000	681,000
Conditions met - transfer to revenue	(801,145)	(681,901)
Contributions still to be met - transfer to liabilities	442,855	-
LGSETA		
Opening Balance	43,131	31,669
Conditions met - transfer to revenue	(43,131)	(31,669)
	-	-
DSD - Social Development Grant		
Opening Balance	-	11,956
Conditions met - transfer to revenue	-	(11,956)
	-	-

The nature and extent of government grants recognised in the annual financial statements is an indication of other forms of government assistance from which the municipality has directly benefited;

Unfulfilled conditions and other contingencies attaching to government assistance has been recognised as a current liabilities.

These amounts are invested in a separate bank account and are supported by cash in the bank.

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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12. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Medical Aid Benefits and Long Service Awards (Long Term)	2,200,000	616,008	2,816,008
Provision for leave	1,621,566	240,280	1,861,846
Medical aid benefits and long service (Short term)	61,000	5,485	66,485
	3,882,566	861,773	4,744,339

Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Medical Aid Benefits and Long Service Awards (Long Term)	1,865,028	334,972	2,200,000
Provision for leave	1,606,679	14,887	1,621,566
Medical aid benefit and Long service (Short term)	18,479	42,521	61,000
	3,490,186	392,380	3,882,566

The leave provision represents managements best estimate of the municipality's liability under one period based on prior experience.

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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12. Provisions (continued)

Post retirement medical benefits

POST RETIREMENT MEDICAL BENEFITS

The Council operates a defined medical aid benefit scheme for the benefit of its permanent employees.

Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid contribution after retirement.

The main assumptions used by the actuary are:

	2016 (R millions)	2015 (R millions)
Discount rate per annum	9.88%	Yield Curve
Health care cost inflation rate	8.85%	CPI +1
Net effective discount rate	0.95%	Yield curve based
Post -Retirement subsidy		
Retirement age		
Males	65	65
Females	65	65
Mortality during employment	SA 85-90 Ultimate Mortality Table	
Mortality post retirement	PA90-1 Ultimate Mortality Table .	
Number of in-service non-member	0	0
Number of in-service members	51	48
Number of pensioners	0	0
No. of Active employees	0	0
Accrued liability at 30 June	1,697,483	1,285,000
Future - service cost	129,000	173,457
Interest cost	124,000	112,415
Expected benefits payments/ Change in assumption	0	100,586
Actuarial loss/(gain)	159,483	39,242
Total annual expense	253,000	146,044
Projected accrued liability at 30 June ensuing year	1,950,483	1,538,000
Accrued liability at 30 June	1,697,483	1,285,000
Short term portion of accrued liability	-	-
Long term portion of accrued liability	1,697,493	1,285,000
The effect on the liability of a 1% change in the assumed rate of medical inflation:	Liability (R millions)	Liability (R millions)
Central assumptions	1,697	0
1% increase in assumed medical inflation	1.793	1.025
1% decrease in assumed medical inflation	1,561	0.968

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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12. Provisions (continued)

Long Service Awards and Retirement Gifts

LONG SERVICE AWARDS AND RETIREMENT GIFTS

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service.

The main assumptions used by the actuary are:

	2016 (R millions)	2015 (R millions)
Discount rate per annum	8,74%	Yield Curve
General salary inflation rate (long term)	7.38%	Equal to CPI
Net effective discount rate	1.27%	Yield curve based
Retirement age		
Males	65	65
Females	65	65
Mortality during employment : SA 85-90 Ultimate Table adjusted for Female lives		
Number of Active employees	79	81
Accrued liability at 30 June	1,185,010	976,000
Future - service cost	118,000	109,277
Interest cost	93,000	61,796
Expected benefits payments	-61,000	-37,318
Actuarial loss/(gain)	59,010	97,694
Total annual expense	150,000	231,449
Projected accrued liability at 30 June ensuing year	1,185,010	976,000
Accrued liability at 30 June	1,185,010	976,000
Short term portion of accrued liability	-66485	-61000
Long term portion of accrued liability	1,118,525	915,000
The effect on the liability of a 1% change in the assumed rate of salary inflation:	Liability (R millions)	Liability (R millions)
Central assumptions	1,185	0
1% increase in assumed salary inflation	1.290	1,095
1% decrease in assumed salary inflation	1,092	0,915

13. Payables from exchange transactions

Trade payables	2,533,725	3,355,374
Other creditors	408,549	720,343
Retention	3,794,003	2,921,916
	6,736,277	6,997,633

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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14. Revenue

Commissions received	12,714	12,173
Other income	591,207	397,478
Interest received - investment	4,117,139	2,029,073
Property rates	11,826,508	11,603,328
Government grants & subsidies	74,971,569	65,339,740
Fines, Penalties and Forfeits	92,650	31,550
Licenses and permits	3,860,691	3,946,205
	95,472,478	83,359,547

The amount included in revenue arising from exchanges of goods or services are as follows:

Commissions received	12,714	12,173
Other income	591,207	397,478
Interest received - investment	4,117,139	2,029,073
	4,721,060	2,438,724

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	11,826,508	11,603,328
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Transfer revenue

Government grants & subsidies	74,971,569	65,339,740
Fines, Penalties and Forfeits	92,650	31,550
Licenses and Permits	3,860,691	3,946,205
	90,751,418	80,920,823

15. Other income

Operating lease income	77,058	73,072
Library Income	20,007	18,485
Clearance Certificates	16,289	9,315
Subscription Library	-	35
Tender Fees	80,795	84,709
Building Plan (Plan Fees)	247,663	179,619
Income - Excess Cards	-	120
Other income	139,768	-
Planning Application Fee	9,627	17,737
Enforcement	-	14,386
	591,207	397,478

16. Interest received

Interest revenue

Interest earned from investments	1,875,411	905,810
Interest charged on trade and other receivables	2,241,728	1,123,263
	4,117,139	2,029,073

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
17. Property rates		
Rates received		
Residential	2,695,919	2,670,426
Commercial	755,369	516,075
State and Education	689,479	1,085,578
Agriculture	2,938,573	2,694,179
Public service infrastructure	375,617	143,195
Sectional Title	763,871	1,313,919
Other Properties	2,053,469	1,839,132
Industrial	2,936,256	2,798,962
Less: Income forgone	(1,382,045)	(1,458,138)
	11,826,508	11,603,328

Valuations

Residential	277,921,000	277,787,000
Commercial	67,242,000	67,242,000
State and education	79,743,520	53,594,270
Agriculture	1,534,981,000	1,528,820,000
Public service infrastructure	80,254,000	79,045,000
Sectional Title	74,816,000	74,922,000
Other Properties	268,438,740	295,715,990
Industrial	418,270,000	407,370,000
	2,801,666,260	2,784,496,260

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

18. Government grants and subsidies

Operating grants

Equitable share	51,341,000	39,424,000
Library - Grant Income	801,145	681,901
Social Development - Grant	-	11,956
Electrification Grant	2,194,189	3,513,152
Financial Management Grant	1,799,065	1,544,670
Municipal Infrastructure Grant - Income	16,851,000	18,056,872
Municipal System Improvement Grant	930,000	943,520
LGSETA	43,131	31,669
EPWP Grant	1,012,039	1,132,000
	74,971,569	65,339,740

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
19. Employee related costs		
Basic	13,783,855	14,442,228
Bonus	887,591	926,537
Medical aid	1,097,113	835,463
UIF	118,764	99,732
SDL	184,800	161,441
Leave pay provision charge	722,475	807,689
Phone Allowance	44,304	41,600
Defined contribution plans	2,357,828	1,792,793
Travel, motor car, accommodation, subsistence and other allowances	237,456	269,000
Overtime payments	1,174,534	1,034,305
Acting allowances	42,291	136,857
Housing benefits and allowances	148,805	57,178
Bargaining Council Contributions	6,954	5,500
Stipend - Ward Committee	788,000	801,000
	21,594,770	21,411,323

Remuneration of Municipal Manager

Annual Remuneration	635,482	137,730
Travel Allowance	51,456	24,000
Other Allowances	1,487	419,895
Leave Pay	-	159,704
Cellphone allowance	12,864	8,000
	701,289	749,329

The Municipal Manager was appointed w.e.f 15 October 2015

Remuneration of Chief Finance Officer

Annual Remuneration	720,755	637,000
Travel Allowance	72,000	66,000
Other Allowances	386	409
Back Pay	12,978	-
Cellphone Allowance	9,600	8,800
Acting Allowance	-	5,191
	815,719	717,400

Remuneration of Manager of Community Services

Annual Remuneration	697,955	672,000
Travell Allowance	84,000	84,000
Back Pay	12,978	-
Other Allowances	11,186	13,949
Cellphone Allowance	9,600	9,600
	815,719	779,549

Remuneration of Manager Technical Services

Annual Remuneration	-	175,000
Travel Allowance	-	35,000
Leave Pay	-	149,501
Other Allowances	-	237,525
Cellphone Allowances	-	5,600
	-	602,626

Mkhambathini Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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19. Employee related costs (continued)

The Manager Technical Services position has been vacant since February 2015.

Remuneration of Manager of Corporate Services

Annual Remuneration	281,055	696,000
Travel Allowance	25,000	60,000
Other Allowance	4,661	11,186
Back Pay	12,978	-
Leave Pay	117,928	36,914
Cell phone Allowance	4,000	9,600
	445,622	813,700

The Corporate Services Manager position has been vacant since 21 November 2015.

20. Remuneration of councillors

Mayor	741,004	705,981
Deputy Mayor	592,280	567,419
Exco Members	318,634	304,470
Speaker	592,280	572,150
Councillors	2,375,513	2,342,338
	4,619,711	4,492,358

21. Administrative expenditure

Contributions to Medical Aid and long service awards	621,493	377,493
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22. Debt impairment

Debt impairment	1,726,574	2,258,175
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Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
23. General expenses		
Materials	28,855	48,926
Advertising	147,775	228,867
Auditors remuneration	1,187,514	1,083,457
Pound Security	60,000	89,417
Face Value - Licence Card Renewals	314,244	185,733
Legal Expenses	463,445	205,724
Consumables	269,717	226,357
Valuation Fees	289,035	23,333
Landfill Site Fees	177,317	169,066
Loss on sale of an asset	115,615	-
Rentals	373,615	399,689
Insurance	802,035	167,854
Community development and training	4,709,959	3,582,376
Conferences and seminars	254,123	226,582
Interest Paid	208,555	139,369
IT expenses	366,493	515,844
Levies - Kwa Nologa	500,000	500,000
Magazines and Periodicals	40,877	46,600
Licence Renewal	17,868	17,176
Disaster Management	348,039	303,338
Fuel and oil	377,195	512,132
Postage and courier	30,837	28,631
Printing and stationery	627,770	320,215
Art & Culture	364,915	262,430
Protective clothing	134,481	94,246
Security Charges - Banking	88,149	47,557
Telephone and fax	541,197	512,763
District Shared Services Contribution	192,065	-
Training and Development	515,437	528,750
Subsistence and Travelling	89,506	19,357
Electricity	650,519	640,931
Tourism development	18,600	26,756
Tracker Subscription	25,797	-
Building Control	73,941	82,122
Sport and Recreation	1,179,774	850,248
Civic and Hospitality	165,300	153,088
Vat Correction - Prior Year	-	134
Consultants Fees	2,401,461	1,532,612
Other expenses	1,467,136	246,614
	19,619,161	14,018,294

24. Auditors' remuneration

External Audit Fees	1,187,514	1,083,457
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25. Operating lease commitments (lessee)

Operating Lease payment rentals payable by the municipality for certain office photocopying machines. Leases are negotiable on an average term of five years. Lease rentals escalates by 10 % per annum over the period of lease.

Operating Lease - as lessee (Expense)

Minimum Lease Payment Due

Within 1 year	108,427	108,427
Between two to five years	153,604	262,031
	262,031	370,458

Mkhambathini Municipality

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Figures in Rand	2016	2015
26. Operating lease commitments (lessor)		
Present value of minimum lease payment due		
Within 1 year	68,572	68,572
In second to fifth year inclusive	274,289	274,289
Later than five years	68,572	137,145
	411,433	480,006
27. Cash generated from operations		
Surplus	34,664,512	25,303,254
Adjustments for:		
Depreciation and amortisation	5,587,825	4,626,666
Loss on sale of assets	115,615	-
Impairment deficit	719,376	2,145,300
Debt impairment	1,726,574	2,258,175
Movements in operating lease assets and accruals	(21,027)	(14,089)
Movements in provisions	861,773	392,380
Changes in working capital:		
Receivables from exchange transactions	695,049	(408,499)
Consumer debtors	(3,333,020)	(2,694,391)
Payables from exchange transactions	(261,356)	(897,708)
VAT	1,687,974	(1,111,866)
Unspent conditional grants	(884,648)	435,528
	41,558,647	30,034,750

Mkhambathini Municipality

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Figures in Rand	2016	2015
28. Capital Commitments		
24.1. Committed in respect of Capital Expenditure		
Already contracted for but not provided for		
Road Infrastructure	441,091	740,030
Community Infrastructure	2,516,270	3,470,237
	2,957,361	4,210,267
Not yet contracted for and authorised by accounting officer		
Community Infrastructure	10,901,826	13,351,000
Road Infrastructure	4,724,174	3,500,000
	15,626,000	16,851,000
Total capital commitments		
Already contracted for but not provided for	2,957,361	4,210,267
Not yet contracted for and authorised by accounting officer	15,626,000	16,851,000
	18,583,361	21,061,267
Revenue from Exchange Transaction		
Approved and contracted for		
Contracted Services	1,352,748	3,137,335
Electrification	1,538,667	-
	2,891,415	3,137,335
Approved and not contracted for		
Electrification	-	11,161,218
Total operational commitments		
Already contracted for but not provided for	2,891,415	3,137,335
Not yet contracted for and authorised by accounting officer	-	11,161,218
	2,891,415	14,298,553
Total commitments		
Total commitments		
Authorised capital expenditure	18,583,361	21,061,267
Authorised operational expenditure	2,891,415	14,298,553
	21,474,776	35,359,820
Operating lease commitment (lessor)		
Minimum lease payments due		
- within one year	68,572	68,572
- in second to fifth year inclusive	274,289	274,289
- later than five years	68,572	137,145
	411,433	480,006

Mkhambathini Municipality

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Figures in Rand	2016	2015
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29. Contingent Liability

1. Due to the fact that not all the post on the municipality's organogram were evaluated, it is impractical for the municipality to measure the cost of the liability reliably.

Litigation Cases :

2. Manderstone PDA appeal - The appellants advised that it was their intention to bring a high court review applications against the municipality to prove the rezoning. The high court application notice has been received and the council will then decide whether or not to oppose the application or set aside the matter. The municipality is not defending the matter but is exposed to a possible court order of R70 000

3.HFR Properties (PTY) Ltd - Portion 17 of the farm Honing Krantz no 945 - HFR properties has erected building without approved plans and is using the property in conflict with town planning scheme provision.The attorneys have been instructed to obtain the court order for the illegal use of the property.The expected cost is unknown at this point.

4. Spar Development - Actions was taken against the developers of Spar to enforce compliance with various transgressions of the town planning scheme.The developer appealed to the municipality to allow it time to regulate the transgression.Discussions are to be held with Spar.The expected costs are unknown at this point.

5.ERF 149 Camperdown Madrasah - A successful order was obtained to prevent unlawful occupation of a building erected without necessary building plans.A bill of cost was taxed but the municipality decided to pursue the matter out of the court and implement the court order to demolish the building.

6. Excellence at work consultants CC - Termination od a feasibility study for a cemetery site.The matter is pending in court.The possible cost is R50 000.

7.Sundee Singh - The service provider is under curatorship.The matter is presently pending in the Magistrate court in Camperdown.The Expected costs are R 95 000

8.Durban Sky Dive Centre cc and another - This matter is a town planning contravention for illegal use.The expected costs are R200 000

9. Sanral - To negotiate the purchase of land from SANRAL for municipal use.The expected costs are R 25 000

10. Hope Farm Eviction - To address the complaints received with regard to illegal occupation of Hope Farm. The expected cost is R40 000

11. SPCA - The SPCA is claiming for damages from the municipality due to contractual matters.The expected costs is R200 000

12. Land invasion Emasisweni Amacamu Trust - Illegal buildings are being erected on trust land with no permission. The expected costs are R 100 000

13.Legal Assistance with expropriation of Poortje Farm - Council is attempting to expropriate land for housing projects. The expected costs are R 100 000

30. Related parties

Relationships:

Employee of the municipality : Mr Shange

Related party transactions

Purchases from related parties

Mr. M.S. Shange	36,000	36,000
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During the year the municipality traded with an employee, Mr. M.S. Shange who provided his firearm for official duties amounting to R36 000 (2015: 36 000)

Mkhambathini Municipality

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31. Change in estimate

Property, plant and equipment

GRAP 17: Property, plant and equipment requires that the review of the remaining useful life of an item of property, plant and equipment be conducted at least at each financial year end.

At 30 June 2016, community assets that were dilapidated due to either vandalism or wear and tear, were impaired as required by GRAP 17.

The effect on the future annual depreciation cost will be as follows:

	Depreciation per annum before	Depreciation per annum after	Difference (Future change in depreciation per annum)
Ogagwini sports field	50,282	(48,480)	1,802
Nsongeni sports field	52,439	(51,269)	1,170
Ward 7 creche	16,466	(14,624)	1,842
Ngilanyoni sports field	174,975	(145,202)	29,773
Mpangisa sports field	209,821	(208,729)	1,092
Makholweni hall	51,794	(43,471)	8,323
Maqongqo sports field	-	-	-
	555,777	(511,775)	44,002

There will be the same effect in the statement of financial position - accumulated depreciation, per annum.

32. Prior period errors

Statement of financial position

	As previously reported	Correction of errors	Total Restated
Consumer debtors	7,311,992	33,029	7,345,021
PPE	94,487,845	(12,804)	94,475,041
Receivables from non exchange transaction	11,673	(11,673)	-
Receivables from exchange transaction	1,306,234	(430,470)	875,764
Payables from exchange transaction	(7,406,762)	409,128	(6,997,634)
Revaluation Reserves	(12,825,818)	12,825,818	-
Accumulated Surplus	(96,951,576)	(12,813,028)	(109,764,604)
	(14,066,412)	-	(14,066,412)

Consumer Debtors - This is as a result of implementing the supplementary valuation roll which affected the prior years valuation and property rates.

Property plant and equipment - This is as a result of expenditure incorrectly capitalised.

Receivables from non exchange transactions - This is a result of PAYE which could not be cleared due to lack of supporting documents as its relates to previous years.

Receivables from Exchange transactions - This is a result of debtors with no supporting documents to validate the debtor which relates to previous year.

Payables from exchange transaction - This is a result of Payables with no supporting documents to validate the debtor which relates to previous year.

Revaluation Reserves - During the review of the AFS conducted it was noted the revaluation was disclosed in the statement of changes in net assets, it should have removed because the municipality accounts for Property ,Plant and equipment using the cost model and not the revaluation model

Mkhambathini Municipality

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33. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The amount reflected within trade and other payables from exchange transactions are R 6,736,278 (2015 : 7 406 762)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Cash and cash equivalent	37,260,379	14,613,590
Consumer Debtors	8,951,467	7,345,021

34. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

35. Events after the reporting date

Local Government elections took place on 3 August 2016. A new council was elected and inaugurated on 17 August 2016.

36. Unauthorised expenditure (Non - cash items)

Opening balance	-	-
Non - cash items (Depreciation ,Long services and Debt Impairment)	3,696,926	-
Closing Balance	3,696,926	-

Unauthorised expenditure on non cash items is as a result that these items are variable in nature , see appendix G3 for more details.

37. Fruitless and wasteful expenditure

Opening balance	2,966,935	2,966,935
Add : fruitless and wasteful expenditure - current year	191,194	-
Less : amounts condoned	-	-
Closing Balance	3,158,129	2,966,935

Interest amounting to R8,281.73 consist of interest on overdue accounts from Telkom and Eskom .

Penalty amounting to R51,412.20 consist of vat penalty from SARS due to the late submission of Vat returns

Expenditure incurred on leasing a Firearm from an employee amounting to R131 500.00.

Mkhambathini Municipality

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38. Irregular expenditure

Opening balance	3,123,610	1,768,717
Add: Irregular Expenditure - current year	395,885	641,716
Less: Amounts condoned	-	-
Discovered during Audit	122,856	713,177
Less: Amounts not recoverable (not condoned)	-	-
Amounts not condoned	3,642,351	3,123,610

Irregular expenditure consist of SCM deviations amounting to R518 737 during the current period.

Contracts awarded in terms of section 36 (Deviations from /and ratification of minor breaches of procurement processes of the supply chain management policy amounted to R 518 737 . These were mainly due to 3 quotations not being obtained and other SCM processes not being complied with.

39. In-kind donations and assistance

Inkind Donations provided and gifts recieved

In - kind donation provided by the municipality	-	4,500
Gift recieved	-	(7,196)
	-	(2,696)

40. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Amount paid - current year	500,000	500,000
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Audit fees

Amount paid - current year	1,187,514	1,083,457
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PAYE and UIF

Current year Payroll Deduction	4,376,537	3,976,250
Amount paid - current year	(4,376,537)	(3,976,250)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	5,200,057	4,046,587
Amount paid - current year	(5,200,057)	(4,046,587)
	-	-

VAT

VAT receivable	355,277	2,043,251
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VAT output payables and VAT input receivables are shown in note .

Appendix G3
Budgeted Financial Performance (revenue and expenditure)
for the year ended 30 June 2016

	2016/2015							2015/2014							
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Adjustments Budget	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Revenue By Source															
Property rates	11,454,188	-	11,454,188	-		11,454,188	11,826,508		372,320	103 %	103 %				11,603,328
Property rates - penalties & collection charges	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - electricity revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - water revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - sanitation revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - refuse revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - other	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Rental of facilities and equipment	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Interest earned - external investments	800,000	726,000	1,526,000	-		1,526,000	1,875,411		349,411	123 %	234 %				905,810
Interest earned - outstanding debtors	1,272,000	-	1,272,000	-		1,272,000	2,241,728		969,728	176 %	176 %				1,123,263
Dividends received	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Fines	41,128	-	41,128	-		41,128	92,650		51,522	225 %	225 %				31,550
Licences and permits	4,873,198	(1,298,000)	3,575,198	-		3,575,198	3,860,691		285,493	108 %	79 %				-
Agency services	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Transfers recognised - operational	65,873,000	(5,767,000)	60,106,000	-		60,106,000	74,971,569		14,865,569	125 %	114 %				47,282,868
Other revenue	383,913	-	383,913	-		383,913	640,911		256,998	167 %	167 %				4,355,856
Gains on disposal of PPE	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Total Revenue (excluding capital transfers and contributions)	84,697,427	(6,339,000)	78,358,427	-		78,358,427	95,509,468		17,151,041	122 %	113 %				65,302,675

Appendix G3
Budgeted Financial Performance (revenue and expenditure)
for the year ended 30 June 2016

	2016/2015								2015/2014						
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Adjustments Budget Rand	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Expenditure By Type															
Employee related costs	25,751,892	-	25,751,892	-	-	25,751,892	21,594,767	-	(4,157,125)	84 %	84 %	-	-	-	21,411,325
Remuneration of councillors	4,800,000	-	4,800,000	-	-	4,800,000	4,619,711	-	(180,289)	96 %	96 %	-	-	-	4,492,358
Debt impairment	800,000	-	800,000		-	800,000	1,726,574	-	926,574	216 %	216 %	-	-	-	2,258,175
Depreciation & asset impairment	4,700,000	-	4,700,000		-	4,700,000	6,307,201	-	1,607,201	134 %	134 %	-	-	-	6,771,966
Finance charges	140,000	(140,000)	-	-	-	-	-	-	-	DIV/0 %	- %	-	-	-	-
Repairs and Maintenance	7,750,000	(2,000,000)	5,750,000	-	-	5,750,000	860,218	-	(4,889,782)	15 %	11 %	-	-	-	-
Transfers recognised operational	14,532,000	(7,257,000)	7,275,000	-	-	7,275,000	5,458,839	-	(1,816,161)	75 %	38 %	-	-	-	(7,734,332)
Other expenditure	24,854,155	-	24,854,155	-	-	24,854,155	18,230,620	-	(6,623,535)	73 %	73 %	-	-	-	15,388,139
Contribution to Medical Aid and Long Service Awards	300,000	-	300,000	-	-	300,000	578,087	-	278,087	193 %	193 %	-	-	-	-
Total Expenditure	83,628,047	(9,397,000)	74,231,047	-	-	74,231,047	59,376,017	-	(14,855,030)	80 %	71 %	-	-	-	42,587,631
Surplus/(Deficit)	1,069,380	3,058,000	4,127,380	-		4,127,380	36,133,451		32,006,071	875 %	3,379 %				22,715,044
Transfers recognised - capital	16,851,000	-	16,851,000	-		16,851,000	16,851,000		-	100 %	100 %				18,056,872
Contributions recognised - capital	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Contributed assets	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Surplus/(Deficit) after capital transfers & contributions	17,920,380	3,058,000	20,978,380	-		20,978,380	52,984,451		32,006,071	253 %	296 %				40,771,916
Taxation	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Surplus/(Deficit) after taxation	17,920,380	3,058,000	20,978,380	-		20,978,380	52,984,451		32,006,071	253 %	296 %				40,771,916
Attributable to minorities	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Surplus/(Deficit) attributable to municipality	17,920,380	3,058,000	20,978,380	-		20,978,380	52,984,451		32,006,071	253 %	296 %				40,771,916
Share of surplus/ (deficit) of associate	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Surplus/(Deficit) for the year	17,920,380	3,058,000	20,978,380	-		20,978,380	52,984,451		32,006,071	253 %	296 %				40,771,916